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The American Institute of CPAs (AICPA) has released recommendations on the appropriate documents and calculations that small businesses should use to qualify for loan forgiveness under the CARES Act's Paycheck Protection Program (PPP).

The recommendations were made in consultation with an AICPA-led small business funding coalition, CPA firms and other key stakeholders. They build on previous guidelines the AICPA has provided to help bring clarity to the implementation of the PPP.

Among other suggestions, the AICPA urges that:

- The 8-week covered period under PPP should align with the beginning of a pay

"Loan forgiveness is a key element of the Paycheck Protection Program, and the steps for qualification should be simple, straightforward and designed to help small businesses succeed," said Mark Koziel, the AICPA's executive vice president for firm services. "Our goal is to continue to work with our coalition and other stakeholders to help drive consistency and a standard approach for the smaller entities that are now applying."

The full set of the AICPA's recommendations, including those that apply to the application process, can be found here. Those recommendations that apply directly to loan forgiveness are as follows:

PPP Loan Forgiveness

I. **Loan forgiveness documentation for employers**

1. Payroll tax reports: 2020 IRS Forms 941, state income and unemployment tax returns that include the 8-week covered period. (See recommendation below regarding 8-week covered period.) If your organization contracts with a payroll provider or Professional Employer Organization (PEO) you can supply other documents, such as reports reflecting employment tax returns filed.
2. Compensation and FTEs: In general, payroll reports which will include the following:
    a. Gross wages for each employee for the following:
        i. During the 8-week covered period
        ii. During the most recent full quarter before the 8-week covered period
    b. Identifying employees who during any period in 2019, received an annualized pay of more than $100k and also employees whose principal place of residence is outside the U.S.
    c. State and local employer taxes assessed on an employee's compensation (i.e. SUTA) during the 8-week covered period

d. The average number of full-time equivalents (FTEs) per month for the

period February 15, 2019 through June 30, 2019.

3. Group health care benefits: Documentation showing total costs paid for all health care benefits, including insurance premiums paid by the organization under a group health plan.

   e. Include all employees and company owners.
   f. Do not include employee withholdings for their portion of contributions to the plan.

3. Retirement plan benefits: Documentation showing the sum of all retirement plan funding costs paid by the organization.

   0. Include funding for all employees and the company owners.
   a. Do not include employee withholdings for their portion of contributions to the plan.

4. Other documentation: Canceled checks, receipts, account statements or other documentation of payment for other eligible costs incurred and paid during the covered period such as mortgage interest, lease payments, utility payments.

II. **For Sole Proprietors, Independent Contractors and Self- Employed Individuals**
   1. The 2019 Form 1040 Schedule C to verify net income (line 31) for owner income replacement calculation.
   2. If you have employees, provide payroll documentation as outlined above, including documentation of healthcare and retirement benefits costs. Exclude owner from healthcare and retirement costs.
   3. Canceled checks, receipts, account statements or other documentation of payment for other eligible costs incurred and paid during the covered period such as mortgage interest, lease payments, utility payments. Note: these types of expenses must have been deducted on the 2019 Form 1040 Schedule C to be eligible for forgiveness.

II. **Forgiveness Recommendations**

The following four broad recommendations are provided to encourage a consistent

example, if funding is received on April 10 and the borrower's normal pay cycle is semi-monthly, the borrower could elect to start the 8-week covered period on April 1 or April 16. Using this approach, rather than beginning the covered period when funding is received, will provide borrowers more opportunity to use the PPP funds for their primary purpose – keeping employees on the payroll. Additionally, using an approach that aligns to the borrower's operations will result in a more efficient, consistent approach.

- Recommendation: Begin the 8-week covered period when operating restrictions are lifted, rather than the date loan proceeds are received.
  - If a borrower receives PPP funding while its operations are shut down due to shelter-in-place orders or essential business restrictions, etc., we recommend the start of the 8-week covered period be based on when the restrictions are lifted and the borrower is allowed to operate – using either the beginning of the payroll period during which operating restrictions were lifted, or the beginning of the next payroll period, at the borrower's discretion. This allows funding to be used to quickly get the borrower back up and running, rather than limiting the use of the funds to a time period when they are not permitted to operate.
- Recommendation: Defining Full-time Equivalents
  - Because the CARES Act does not define how to calculate a full-time equivalent (FTE), we recommend following the definition under the Affordable Care Act (ACA) of 30 hours.
  - Also because hours are not always collected for certain types of employees (e.g. salaried workers or those paid by piecework), we recommend using a wage-based proxy for determining FTEs.
    - If hours worked are not available, employees would be deemed an FTE if earnings are over $217.50 – the Federal minimum wage x 30 hours a week

[$7.25 x 30 = $217.50]. Employees earning less than $217.50 /week would be

Consequently, selecting a measure that is simple, consistent and able to easily be applied across all employee types and all time periods is paramount.

- We strongly believe this recommendation meets that goal by being very straightforward. Any decrease in compensation does not factor into this data point, therefore, this simple approach leads to a result that identifies any reduction in employee headcount when consistently applied to the various time periods.

- Recommendation: Payroll reduction calculation should be done based on the average payroll per employee per week rather than the total compensation per employee in an 8-week period versus the prior quarter.

  - The CARES Act includes a provision for a reduction in loan forgiveness for any employee whose compensation decreased by more than 25% from the 12-week quarter and the 8-week covered period. However, 8 weeks will naturally have 33% less payroll due to the fewer number of weeks in the time period.
  - Additionally, individuals who were employed during the most recent full quarter may be unable or unwilling to return to work.
  - We strongly recommend using an average payroll per employee per week comparison as that approach is in line with the intent of the CARES Act and provides a clear indication if an employee's wages have been decreased.
  - We also strongly recommend that this calculation exclude employees who are not active employees throughout the covered period. For example, if someone worked Jan. 1 through March 31 and changed jobs in April, their pay during the covered period would appear to have been reduced by well over 25% compared to the base period. Any reduction in headcount is measured separately; therefore, we recommend only including employees who were active through the entire 8-week covered period.

NOTE: AICPA has requested further clarification on how reductions in forgiveness

The AICPA also has a resource page to assist CPA firms on PPP issues.

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